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Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2011. As requested by the Executive Board in decisions 2011/22 and 2011/23, this report contains information on: (a) experience gained on joint audits, (b) cases of fraud and action taken in cases of misconduct, and (c) internal audit reports disclosed. As in the past, the management response to this report is presented separately (per decision 2006/13), and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/Rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express its continuing support for the strengthening of the internal audit and investigation functions of UNDP; (c) acknowledge and support the engagement of OAI in initiating and coordinating joint audits of multi-partner trust funds, Delivering as One programmes, and other joint activities; and (d) take note of the annual report of the Audit Advisory Committee.

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Annexes (available on the Executive Board web page)

1. Audit reports issued in 2011
2. Audit reports disclosed to Member States during 2011
3. Recommendations unresolved for 18 months or more

Appendix (available on the Executive Board web page)

Annual report of the Audit Advisory Committee for the calendar year 2011

Introduction

1. The UNDP Office of Audit and Investigations submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2011.

2. As requested by the Board in its decision 2011/22, this report contains information on: (a) experience gained on joint audits, and (b) cases of fraud and action taken in cases of misconduct. Also, as requested in decision 2011/23, this report contains information on internal audit reports that have been disclosed. Acknowledging the support expressed last year by the Board to enhance audit and investigative capacities of OAI, this report also provides detailed information on OAI staffing and budget. As in the past, the management response to this report is presented separately (per decision 2006/13) and the annual report of the Audit Advisory Committee is appended to this report (per DP/2008/16/Rev.1).

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

3. The UNDP financial regulations and rules provide that OAI "shall be responsible for the internal audit of UNDP. It shall conduct independent, objective assurance and advisory activities in conformity with the International Standards for the Professional Practice of Internal Auditing (Standards). It shall evaluate and contribute to the improvement of governance, risk management and control processes, and report thereon." They further stipulate that OAI "shall exercise operational independence in the performance of its duties." Lastly, OAI "shall be responsible for assessing and investigating into allegations of fraud and corruption committed by UNDP personnel or committed by others to the detriment of UNDP." The internal audit function's purpose, authority and responsibility are further defined in the charter of the OAI approved by the Administrator.

4. In accordance with the Standards, OAI hereby confirms to the Board that it has enjoyed organizational independence. OAI has been free from interference in determining its audit scope, performing its work and communicating its results.

5. To ensure its continuing effectiveness in carrying out its mandate, OAI maintains a quality assurance and improvement programme for both the audit and investigation functions. This programme includes ongoing and periodic quality assessments. In 2009, OAI was independently confirmed to be in general conformance with the standards and code of ethics of the Institute of Internal Auditors as well as with generally accepted principles and standards for investigations in international organizations. Future external quality assessments for audit and investigations will be performed in 2012 and 2014.

6. Throughout 2011, OAI received strong support from UNDP senior management. As an observer, the Director participated in the meetings of the Organizational Performance Group, which provided the Director an opportunity to give advice on control and accountability aspects of new policies and to comment on any emerging potential risk to UNDP.

7. To enhance the awareness of Member States, donors and other UNDP stakeholders about the UNDP oversight system, as well as to improve cooperation with counterparts in other organizations and, where appropriate, share knowledge and lessons learned, OAI continued to participate in meetings with Member States and with non-Member-State donors.

Independent external oversight

8. The Audit Advisory Committee continued to provide advice to promote the effectiveness of internal audit and investigation functions of UNDP. In 2011, the Committee reviewed the OAI annual work plan, three-year strategy, budget, quarterly progress reports, annual report and selected audit reports.

9. The United Nations Board of Auditors (UNDP external auditors) also monitored the actions taken by OAI to implement the Board of Auditors recommendations aimed at improving OAI operations. The external auditors continued to rely on the OAI review process for third-party audits of projects implemented by non-governmental organizations and national governments (NGO/NIM projects).

Coordination within the United Nations system

10. As agreed during the 2010 Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions, OAI developed a concept paper for jointly auditing Delivering as One programmes. This led to a "Framework for Auditing as One" being signed by the internal audit services of 10 participating organizations in September 2011. The framework provides the basis for a unified internal audit approach for auditing these programmes. It aims at more coherent governance, enhanced management and increased effectiveness in conducting joint audits. As agreed, OAI will issue all audit-related correspondence, be the custodian of audit working papers, and serve as repository of audit recommendations. The first joint audit is taking place in 2012.

11. In March 2011, OAI co-organized the first international investigators course. It was held at the International Anti-corruption Academy in Austria, and attended by staff from more than 10 investigation offices across the United Nations system. In May 2011 OAI jointly coordinated the first annual meeting of heads of United Nations investigation offices. OAI also served in the organizing secretariat of the Conference of International Investigators.

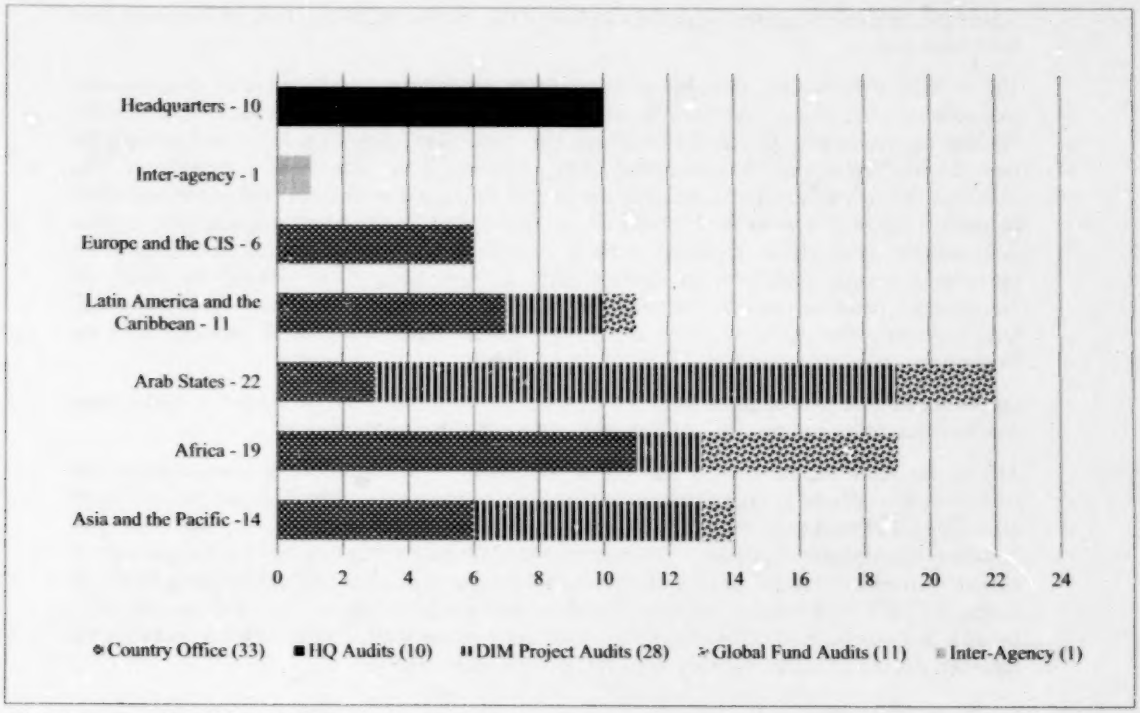
Basis for providing independent assurance to the Administrator

12. To achieve the goal of providing assurance on governance, risk management and control systems, OAI audits cover an appropriate mix of business units, functions and activities at Headquarters, regional and country levels, including grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) and directly implemented (DIM) projects.

13. In 2011, OAI issued 83 audit reports: 10 Headquarters audits, 1 inter-agency audit, 33 country office audits, 11 Global Fund audits and 28 DIM project audits (see Annex 1). The 10 Headquarters audits involved 4 corporate matters, 4 Headquarters business units, the United Nations Volunteers Programme and a consolidated report pertaining to Global Fund grants. The inter-agency audit was conducted jointly with UNFPA and the United Nations Children's Fund (UNICEF). The 33 country office audits consisted of 30 full-scope office audits, 1 follow-up office audit, 1 special review of an NGO/NIM project, and 1 procurement audit (see Figure 1). Three planned audits were cancelled due to security reasons. This, however, did not affect the overall assurance provided to the Administrator.

14. Since most of the audit reports issued in 2011 covered operations and activities of UNDP offices during 2010, the audit outcomes generally reflect the status of operations in 2010. The 72 audits at the country level (33 country office audits, 11 Global Fund audits, 28 DIM project audits), as well as the audit of a regional centre, covered about $2 billion (42 per cent) of the $4.9 billion of UNDP 2010 field-level expenditures, as recorded in the UNDP enterprise resource planning system, Atlas. An additional $2 billion in expenditures were covered by audits of NGO/NIM projects. Altogether, audits of Headquarters, country offices, Global Fund grants, DIM projects and NGO/NIM projects well supplemented the other oversight mechanisms from which the Administrator and the Executive Board derive assurance on the efficient use of UNDP resources, and the effectiveness and adequacy of governance, risk management and internal control processes.

Figure 1. Number and type of audit reports issued in 2011



CIS = Commonwealth of Independent States

II. Disclosure of internal audit reports

15. Following the Board decision 2011/23 authorizing the Administrator to disclose to donor inter-governmental organizations and the Global Fund internal audit reports pertaining to a given project in which the said donor is financially contributing, OAI updated its standard operating procedures for handling disclosure requests. These procedures ensure that all such requests are in full compliance with relevant Board decisions. OAI also signed an agreement with the Global Fund, specifying the conditions and modalities of disclosure.

16. Pursuant to decision 2011/23, UNDP developed a web-based system to enable Member States and donor inter-governmental organizations to view internal audit reports via a secure remote access system. The system requires the viewer to download and install software that will prevent the copying, saving, forwarding and printing of the reports. While the system has been successfully tested in some cases, a number of Member States encountered technical problems as their information technology (IT) security policies require special permission for software installation. Tests are ongoing and OAI is discussing technical aspects with counterparts to ensure a smooth remote access in 2012.

17. To also facilitate the disclosure process, a new OAI page on the UNDP public website was launched in December 2011. The page contains lists of all the reports issued since the adoption of decision 2008/37. OAI will update this list every month. Based on this list, Members States may determine to which audit reports they wish to request confidential access, either on site or through the secure remote access system.

18. In 2011, at the request of the Governments of Canada, Germany, the Netherlands, Norway, South Sudan, Sweden, United Kingdom and United States, and of the Global Fund, UNDP granted access to a total of 35 reports. Since the adoption of the decision in 2008, a total of 74 reports have been disclosed.

19. As in prior years, OAI, through the Board secretariat, informed the Board of all these requests immediately after receipt and prior to any disclosure. Upon receipt of a request, OAI verified whether the reason and purpose for reviewing the report were adequately stated, and whether the request contained an explicit confirmation of the commitment to confidentiality. In addition, OAI informed the Governments concerned of the request through a letter addressed to the respective permanent representative to the United Nations. Governments were given adequate time to view and comment on the report. Eight out of the 35 Governments concerned availed themselves of the opportunity to read the report on OAI premises in New York. After viewing the report, no Government raised an objection to disclosing it to the requesting Government. In all instances, OAI kept the Audit Advisory Committee fully informed during its periodic meetings with the Committee.

20. In accordance with decision 2011/23, OAI hereby confirms to the Board that, in 2011, there was no request received from any organization not covered by this decision.

21. At the 2011 second regular session of the Board, the Administrator re-emphasized the commitment of UNDP to organizational transparency and announced her objective "to see UNDP disclosing its internal audit reports on its website, while noting that confidentiality may need to be protected in certain circumstances." Thereafter OAI developed a plan to achieve full disclosure, in consultation with the Audit Advisory Committee. This plan was informally presented to the Board during its 2012 first regular session. UNDP is suggesting taking an "incremental approach" towards full disclosure. For more details, please refer to the joint UNDP, UNFPA and UNOPS report on disclosure of internal audit reports (DP-FPA-OPS/2012/1).

III. Risk-based audit planning

22. The 2011 OAI audit plan remains risk based. At the Headquarters level, OAI continues to conduct customized risk assessments to identify auditable units and prioritize areas to audit. This approach will enable OAI to cover all the Headquarters business units within a five-year audit cycle. OAI expects that all major units and functions would be audited by the end of 2012. A risk assessment of the Bureau for Development Policy was done in 2011.

23. At the country-office level, OAI conducts the audit risk assessment using a standard risk assessment model. The model uses both quantitative and qualitative factors and involves participation of all regional bureaux in assessing country offices under their purview for some qualitative factors. The model is updated annually for relevance and appropriateness. At the programme level, a number of Global Fund grants are managed under the "additional safeguard policy", which requires an annual financial audit. For the rest of the Global Fund grants, OAI conducts a risk assessment using a model patterned after the country-office audit risk assessment model. At the project level, OAI uses a risk assessment model consistent with the models for assessing country offices and Global Fund grants, but the process is automated through the Comprehensive Audit and Recommendations Database System (CARDS).

24. In all instances, the final selection of audits is done after consultation with the relevant bureaux as well as with the United Nations Board of Auditors. The objective is to optimize audit coverage. Concerns expressed by senior management, donors or programme countries are also considered in the preparation of the audit plan, which is reviewed by the Audit Advisory Committee prior to approval by the Administrator.

IV. Staffing and budget

On staffing

25. At 31 December 2011, there were 68 approved posts, including 2 newly established audit posts to ensure adequate audit coverage and provide reasonable assurance on the use of funds for UNDP activities in Afghanistan, and 4 posts dedicated to the audit and investigation of Global Fund grants. Of the 68 posts, 55 posts were encumbered and 11 were vacant, and 2 audit posts were frozen pending abolishment in 2012 in view of UNDP-wide budgetary constraints. The abolishment of posts was achieved through structural adjustments made effective on 1 January 2012. These involved merging regional audit centres and readjusting the distribution of the audit portfolio among the OAI audit units.

26. Of the 11 vacant positions, 9 were for audit and 2 for investigations. The vacancies were due to promotions, lateral movements and resignations. Out of the 11 vacancies, 6 should be filled during the first quarter of 2012. Recruitment is ongoing for the rest of the vacant posts. The average time to fill a vacancy in OAI is seven months.

27. In line with decision 2011/22, the Board approved two additional investigations posts for the biennial support budget 2012-2013 in order to address the increase in the number and complexity of complaints and investigations.

On budget

28. In 2011, OAI had an approved overall budget of $13.2 million, with $2.7 million (21 per cent) for the investigation function. This includes a one-time allocation of $0.3 million to enable OAI to undertake the highest priority investigations, those involving the greatest reputational risk for UNDP (see Figure 2).

29. Of the total budget, 77 per cent was secured from regular resources and the balance from extra-budgetary resources. In addition, OAI received $1.0 million to cover audit and investigations activities relating to Global Fund projects. Pursuant to decision 2011/22, UNDP management allocated additional resources to OAI for the biennial budget 2012-2013. Figure 2 below shows a comparison of OAI resources in 2011 and 2012.

Figure 2. OAI resources level in 2011 and 2012

Function	2011		2012	
	Authorized posts	Budget (in $ million)	Authorized posts	Budget (in $ million)
Audit	46	8.7	45(a)	8.4
Investigations	9	2.7	11(b)	2.8
Afghanistan audit	2	0.1	2	0.5
Global Fund audit and investigations	4	1.0	4	1.2
OAI management and support	7	1.6	7	1.4
Audit Advisory Committee	0	0.1	0	0.1
Total	**68**	**14.2**	**69**	**14.4**

(a) Includes one fully funded Junior Professional Officer
(b) Includes two newly established, Board-approved posts

V. Significant internal audit results

A. Headquarters audits

30. In 2011, OAI issued 10 audit reports pertaining to Headquarters business units and other corporate matters. These involved: (i) Human Development Report Office; (ii) Special Unit for South-South Cooperation; (iii) Regional Bureau for Africa (follow-up audit); (iv) Panama Regional Centre; (v) administrative agent functions for the Peacebuilding Fund; (vi) management of third-party cost-sharing resources; (vii) write off of inter-agency receivables; (viii) UNDP International Public Sector Accounting Standards (IPSAS) project; (ix) United Nations Volunteers Programme; and (x) a consolidated report on audits of sub-recipients of grants from the Global Fund managed by UNDP as the principal recipient.

31. These audits resulted in 86 recommendations, of which 49 (or 57 per cent) were ranked high priority. Among these 86 recommendations, 5 had corporate-wide impact. These included clearance requirements for contribution agreements and having a corporate repository for cost-sharing agreements, as well as areas where priority attention by management is required for successfully transitioning to IPSAS.

32. The audit report on management of third-party cost-sharing resources was brought to the attention of the Organizational Performance Group to ensure a corporate commitment to address the issues raised by OAI.

B. Inter-agency audits and experience gained thereon

33. In 2010, OAI, together with the internal audit services of UNFPA and UNICEF, audited the implementation of the Harmonized Approach to Cash Transfers (HACT) in Malawi. The report was issued in 2011. This joint audit was led by the UNFPA Division for Oversight Services. Additional joint audits of HACT implementation were conducted in 2011 in Indonesia, Pakistan and at the corporate level, with reports to be issued in 2012.

34. So far, OAI has participated in five joint HACT audits. Experience has shown that clear assignment of responsibilities and authorities is critical for successful planning, fieldwork and reporting of any joint audit. Developing harmonized or joint audit tools, including agreed upon report templates, would make the audits more convenient and efficient. Scheduling the fieldwork has been a challenge due to conflicting priorities among the participating internal audit services. Common audit issues in the implementation of HACT will be analysed and included in future reports to the Board, as appropriate.

35. With regard to the auditing of Delivering as One programmes, a pilot audit is planned to be conducted in Tanzania in the first quarter of 2012. To help focus the audit scope and formulate an appropriate audit approach, OAI conducted a risk assessment mission in 2011. The results were shared with the "auditing as one" steering committee. The internal audit services of seven agencies (Food and Agriculture Organization, UNDP, United Nations Educational, Scientific and Cultural Organization, UNFPA, UNICEF, United Nations Industrial Development Organization and World Food Programme) are participating in the joint audit, while three other internal audit services (International Labour Organization, Office of Internal Oversight Services of the United Nations Secretariat, and World Health Organization) will support the joint audit without directly participating in it.

36. As more experience is gained on these joint audits, OAI will keep the Board duly informed in future reports.

C. Country office audits

37. A full-scope audit of a country office generally covers activities related to governance and strategic management, United Nations system coordination (development activities, resident

coordinator office, the role of UNDP in the One United Nations initiative and HACT). These internal audits also cover programme activities (programme management, partnerships and resource mobilization, project management), as well as operations (human resources, finance, procurement, information and communications technology, asset management, and general administration and safety and urity).

38. As part of the OAI annual work plan for 2011 all country office audits included cross-cutting themes which were reviewed extensively based on standardized audit procedures. These themes were human resources and IPSAS preparedness.

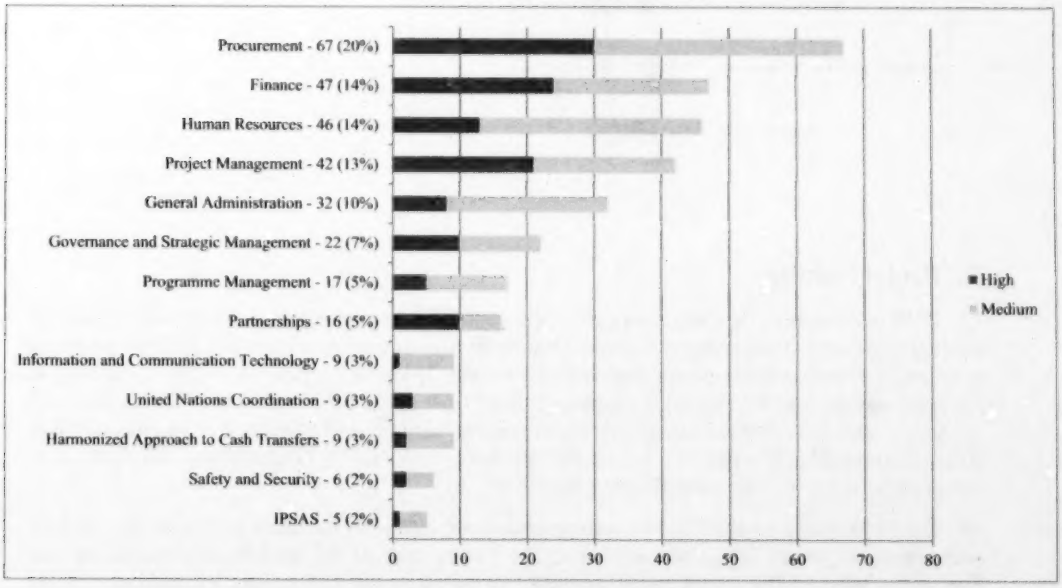
39. The 33 country office audit reports in 2011 comprised 30 full-scope country office audits, 1 follow-up country office audit, 1 procurement audit and 1 special audit. Altogether these audits resulted in 327 recommendations, mostly in the areas of procurement, finance, human resources and project management, which accounted for 61 per cent of the total recommendations (see Figure 3).

40. An in-depth analysis of the audit issues disclosed some recurrence in a number of audited areas. These are weaknesses in: project monitoring and oversight (15 offices); asset management (e.g. physical inventory of assets not performed, non-capital assets not recorded in Atlas and obsolete assets not properly disposed of) (13 offices); processing of payment (11 offices); travel management (e.g. travel claims not completed and travel claims not supported) (10 offices); leave and attendance records (8 offices); management of special service agreements (7 offices); recruitment process (7 offices); vendor management (6 offices); use of account codes (6 offices); and use of e-procurement (5 offices).

41. At 31 December 2011, 127 of the 327 recommendations made in 2011 had been fully implemented within the same year, leaving 200 still outstanding, of which 55 pertained to reports issued in December.

Figure 3. Distribution and prioritization of all country-office audit recommendations in 2011 reports

(Total recommendations: 327)



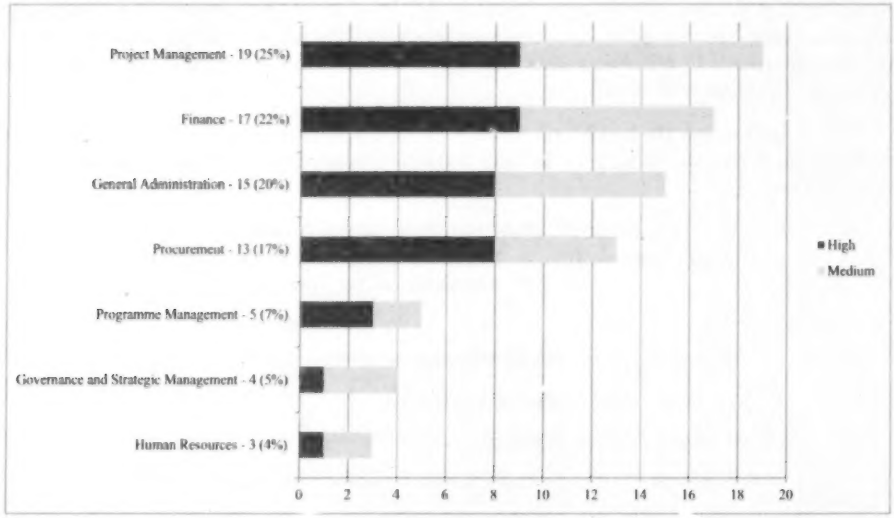
D. Global Fund audits

42. Eleven audit reports were issued in 2011 pertaining to Global Fund grants managed by UNDP as the principal recipient, specifically in Africa (5 offices), Arab States (4 offices), Latin America and the Caribbean (1 office), and Asia and the Pacific (1 office).

43. These 11 audits resulted in 76 recommendations, the majority in the areas of project management, finance and general administration, which accounted for 67 per cent of the total recommendations (see Figure 4). Most of the weaknesses noted were in monitoring and evaluation of project activities and in the management of sub-recipients with regard to their stock and assets.

44. At 31 December 2011, 34 of the 76 recommendations made in 2011 had been fully implemented within the same year, leaving 42 outstanding, of which 17 pertained to reports just issued in December.

Figure 4. Distribution and prioritization of all Global Fund internal audit recommendations in 2011 reports
(Total recommendations: 76)



E. Project audits

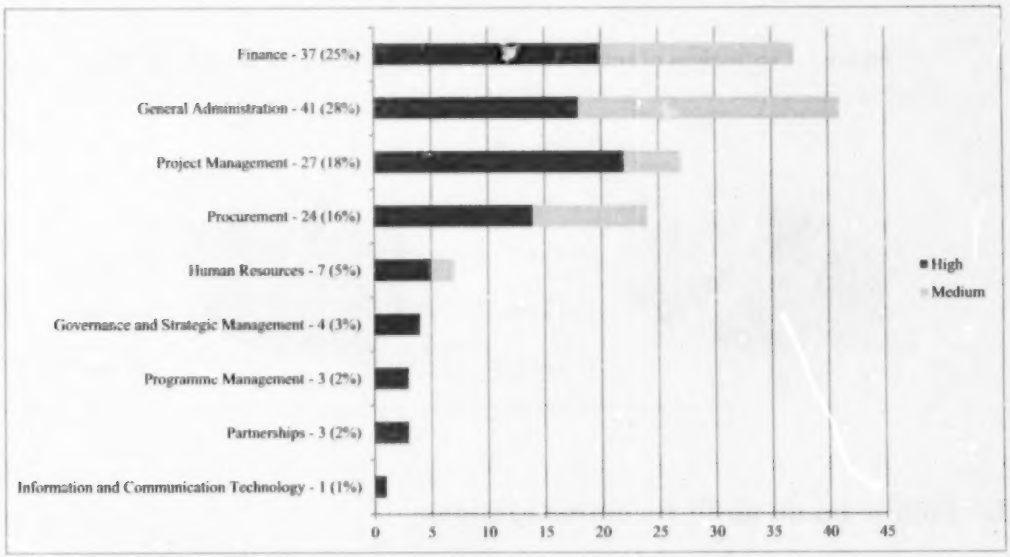
45. DIM projects may be audited as part of the audit of a country office or other business unit or audited separately. Twenty-eight separate DIM audit reports were issued in 2011. These pertained to 56 projects with audited expenditure of $426 million. Thirty of the projects (54 per cent) were in the Asia and the Pacific region (5 countries); 19 (34 per cent) were in the Arab States region (3 countries); and the rest were in Latin America and the Caribbean (4 projects in 3 countries) and in Africa (3 projects in 2 countries). Except for one audit conducted by OAI auditors, the DIM audits were conducted by private audit firms on behalf of OAI.

46. The DIM audits resulted in 147 recommendations, mostly in the areas of finance and general administration, which altogether accounted for 53 per cent of the total recommendations (see Figure 5). Most of the issues noted pertained to overstatement of project expenditures in the combined delivery report, unsupported expenditures, payments for transportation services exceeding the financial ceilings stipulated in the long-term agreements with vendors, and expenditures incorrectly charged to another project. There were also instances of lack of project

asset registers, incomplete project records and unverified physical existence of project assets. Of the total of $426 million audited DIM expenditures, $171 million (or 40 per cent) were qualified. Most of this involved a project in Afghanistan which represented 93 per cent of all qualified expenditures.

47. At 31 December 2011, 46 of the 147 recommendations made in 2011 had been fully implemented within the same year, leaving 101 outstanding recommendations, of which 11 pertained to reports just issued in December. This indicated that slower progress is being made on the implementation of recommendations concerning DIM projects. OAI will closely monitor this situation in 2012.

Figure 5. Distribution and prioritization of all DIM audit recommendations in 2011 reports
(Total recommendations: 147)



VI. Audit ratings

48. Based on the results of an audit, OAI generally assigns an overall audit rating, in terms of its assessment of the governance, risk management and control processes. Exceptionally, special audits, follow-up audits and consolidated reports do not provide an overall audit rating, as these are focused on specific areas with restricted audit objectives. Thus, out of 84 reports, 9 did not contain an overall rating. Of the remaining reports, those that pertained to DIM projects had more "satisfactory" ratings (78 per cent) than those relating to country offices and Global Fund grants (25 per cent) (see Figures 6 and 7).

49. The majority of the audit ratings for the past two years for audits of country offices and Global Funds grants were in the "partially satisfactory" category; the share of "satisfactory" and "unsatisfactory" remains reasonably distributed in 2011. The increase in the percentage of "satisfactory" ratings for DIM project audits is related to the significant expansion of the number of these audits (from 10 in 2010 to 28 in 2011), with a concentration in two countries of 14 audits, all of which were assessed as "satisfactory" (see Figures 6 and 7).

Figure 6. Comparison of audit ratings for Headquarters, country offices and Global Fund audits in 2010 and 2011

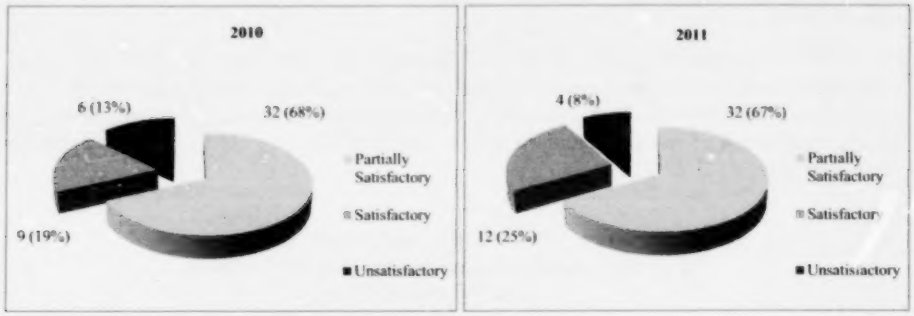
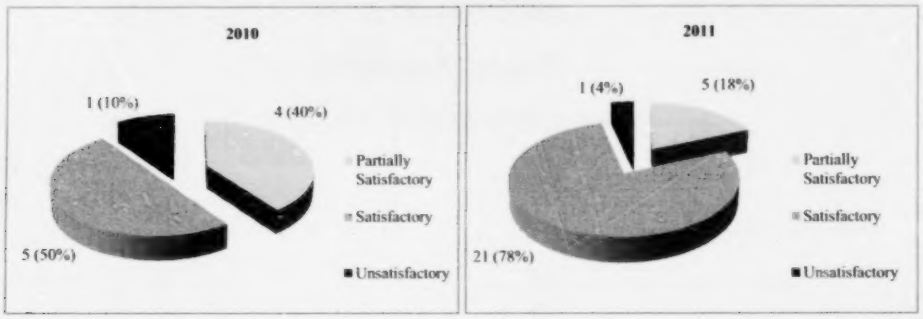


Figure 7. Comparison of audit ratings for DIM project audits in 2010 and 2011



VII. Follow-up on audit recommendations

50. At 31 December 2011, the overall implementation rate was 92.7 per cent. This covers all reports issued from 1 January 2007 to 30 November 2011, taking into account that offices have a one-month grace period after the report issue date for purposes of reporting on the implementation action taken. There was a substantial improvement noted compared to 31 December 2010, where the implementation rate was 87.1 per cent. (This was for reports from 1 January 2006 to 30 November 2010.)

51. At the end of 2011, 28 recommendations had been outstanding for more than 18 months without being fully implemented. This was compared to 41 reported in 2010 (see Annex 3). Of the 41 reported at the end of 2010, 34 (or 83 per cent) were implemented in 2011. An additional 21 recommendations reached the eighteenth-month mark on 31 December 2011. These 28 recommendations comprised 0.6 per cent of the total of 4,347 recommendations issued since 2007. (The oldest recommendation emanated from a 2007 audit, and needed some action from the host government).

52. Of the 28 recommendations, 15 (or 54 per cent) were ranked high priority. Twenty-four recommendations concern UNDP exclusively, and four are shared with UNFPA and UNICEF as they pertain to an inter-agency audit (related to HACT). The reasons for the delayed implementation for the 24 recommendations were noted to be: inadequate action by the offices concerned (54 per cent); dependence on host Governments (42 per cent); and lack of resources (4 per cent).

VIII. Advisory services

53. OAI continued to provide advice to all levels of management at Headquarters, regional centres and country offices. This advice covered a range of subjects, including contract administration, donor relations and reporting, human-resources recruitment processes, asset management and the Global Fund. OAI also regularly reviewed clauses in contribution and grant agreements with donors. In 2011, OAI conducted a special review and provided advice relating to the policies, procedures and practices regarding government contributions towards local costs.

54. To share lessons learned from audits and enhance UNDP staff appreciation of audit findings and recommendations, OAI made presentations: to the HIV/AIDS Group; to UNDP offices in the Latin American and the Caribbean region; at the global management meeting of the Regional Bureau for Africa; at the operations management workshop of the Regional Bureau for Europe and the Commonwealth of Independent States; and to the Global Shared Services Centre. In addition, OAI held eight webinars to provide clarifications and updates to country offices about the NGO/NIM audit exercise.

IX. Internal audit services for UN-Women

55. Based on an agreement between the Executive Director of UN-Women and OAI, OAI continued to provide internal audit services to UN-Women in accordance with the financial regulations and rules of UN-Women.

X. Review of audits of projects executed by non-governmental organizations and/or national governments

56. As a result of the OAI audit risk assessment, 1,302 NGO/NIM awards were selected for audit in 2011 by audit firms or national audit institutions. This represented 80 per cent of the $2.6 billion in expenditures incurred for NGO/NIM projects for fiscal year 2010. These audits are managed directly by country offices. OAI received 1,511 audit reports from 120 country offices. These pertained to 1,291 NGO/NIM awards covering a total of $2.0 billion in expenditures or 99 per cent of the expenditures planned to be audited. One award may comprise several projects, and one audit report may pertain to more than one project. The audit reports were generally submitted on time. The further improvement in the timeliness of reports as compared to previous years was due to concerted efforts by OAI, the Office of Finance and Administration of the Bureau of Management, the regional bureaux and the country offices concerned.

OAI review results

57. Of the 1,511 reports received, OAI selected 661 for in-depth review. This reviewing covered 82 per cent of the audited expenditures. The sample included all reports with modified opinions. OAI reviews four aspects of the NGO/NIM audit reports:

(i) Audit opinion and net financial impact: OAI measures the net financial impact of audit qualifications as a percentage of the reported project expenditure.

(ii) Audit outcome: OAI reviews the audit findings and measures the corresponding risks for overall project implementation.

(iii) Audit scope: OAI reviews the adequacy of audit coverage vis-à-vis the required audit terms of reference.

(iv) Audit administration: OAI reviews how efficiently and effectively the audit was administered by the country office.

58. For the majority of cases, OAI rated the overall quality and outcome of the NGO/NIM audit reports to be "satisfactory" (see Figure 8). OAI summarized the review results in "review letters" sent to the offices. The letters drew attention to areas requiring improvement.

Figure 8. Results of OAI assessment of the quality of NGO/NIM audit reports

	Rating of NGO/NIM Audit Scope			
	FY2010		FY2009	
	Number of COs	%	Number of COs	%
Satisfactory	83	70%	77	63%
Partially Satisfactory	26	22%	33	26%
Unsatisfactory	10	8%	14	11%
Total COs	**119**		**124**	

COs = country offices

Key NGO/NIM audit issues and actions taken thereon

59. The NGO/NIM audit reports contained 2,586 issues, the majority (71 per cent) of which were ranked "medium" priority. Most of the issues pertained to financial management and record-keeping systems and controls. Over the last two audit cycles, however, there was a decrease in issues in the area of financial management, management and use of equipment/inventory, and record-keeping systems and controls. The total number of issues also decreased in 2011 as compared to 2010.

60. OAI also monitors the actions that country offices plan to take or have already implemented to address the audit recommendations arising from the NGO/NIM audits. Of the 2,586 audit issues, 86 per cent were adequately addressed in the country-office action plans.

Audit opinions and net financial impact

61. The NGO/NIM auditors found the project financial expenditures to be fairly presented in the majority of cases and expressed an "unqualified" opinion on $1.9 billion (93 per cent) of the total $2.0 billion of audited expenditures. OAI analysed all the reports with modified opinions (namely, qualified opinion, adverse opinion and disclaimer of opinion), and quantified the corresponding net financial impact to be $40.5 million, which is equivalent to 2 per cent of the total audited expenditures.

62. This net financial impact of $40.5 million in audit qualifications is mainly the result of an exceptional loss of supporting documentation in Egypt, where $27.3 million in project expenditures could not be audited due to the destruction and loss of documents following the political crisis. Without these extraordinary circumstances, the net financial impact arising from the audit of NGO/NIM projects would have been $13.3 million, equivalent to 0.7 per cent of the total audited expenditures. For fiscal year 2009, the net financial impact was $27.9 million or 1.6 per cent of the total expenditures.

XI. Investigations

Caseload

63. During 2011, OAI opened 201 new cases. This was, and for the first time in years, a decrease in the number of complaints as compared to the previous year. OAI also reopened several cases from prior years due to new information or events and made adjustments to its caseload statistics due to the transition to a new case-management system. This resulted in an additional 17 cases being opened during the year. Together with 99 open cases carried over from 2010, this constituted a total caseload of 317 in 2011.

64. Of the 317 cases, 210 were finalized by OAI in 2011. A total of 151 cases (48 per cent) were closed after an assessment determined that a formal investigation by OAI was not warranted, and 45 more cases (14 per cent) were finalized after a full investigation. Of those investigated, 22 (or 49 per cent) resulted in an investigation report establishing evidence of misconduct. Twenty-three cases (51 per cent) were found to be unsubstantiated. Ten cases were referred to other offices within UNDP and four were referred to other organizations for investigation or other necessary action. At the end of 2011, 107 cases were carried over to 2012 (see Figure 9).

Figure 9. Caseload in 2011

Case Load	
Carry-over as of 1 January 2010	**99**
Intake during the year	201
Reopened cases and adjustments	17
Total cases during the year	**317**
Closed (from cases carried over)	152
Closed (from intake)	**58**
Total closed	**210**
Carried forward as of 31 December 2011	**107**

Processing of cases, especially misconduct

65. When an investigation substantiates allegations of fraud or other misconduct, OAI submits an investigation report to the Legal Support Office for consideration of disciplinary or administrative action against the staff or other personnel involved, and for recovery of funds or assets. When an investigation reveals weaknesses in internal controls, OAI issues a management letter to the office concerned, recommending how to strengthen controls. In 2011, OAI issued five management letters at the conclusion of investigations. Figure 10 shows how the cases were closed in 2011.

66. Cases involving potentially criminal misconduct may also be referred to national law-enforcement authorities for criminal investigation and prosecution, along with recovery of funds through criminal restitution. In 2011, OAI recommended the referral of seven cases to national authorities for criminal investigation and compiled all relevant evidence to support the prosecution of appropriate cases.

67. At year end, 43 cases were still undergoing preliminary assessment, while 64 cases were undergoing investigation.

Figure 10. Disposition of cases in 2011

Total cases closed during the year 2011	**210**
After assessment	
- Closed, investigation not warranted	151
- Referred to other offices within UNDP	10
- Referred to other organizations	4
After investigation	
- Closed (not substantiated)	23
- Submitted to Legal Support Office	22
- Submitted to Ethics Office (retaliation cases)	0
- Management letter issued[1]	5

[1] In some cases, both a management letter and an investigation report were issued.

Types of complaints or allegations

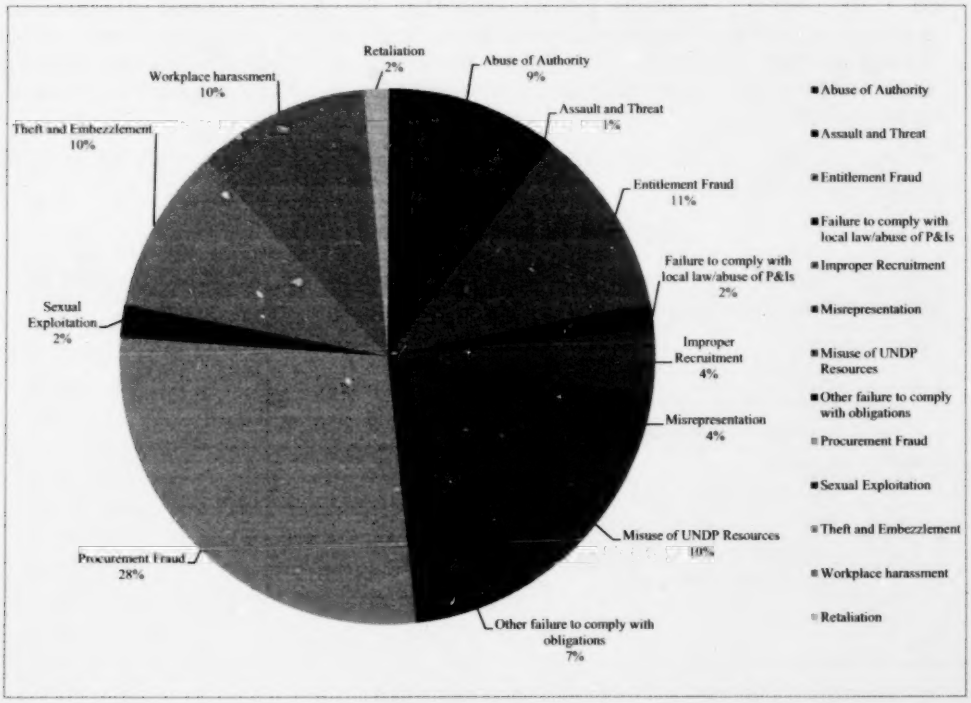
68. Complaints relating to financial irregularities—such as procurement fraud, theft and embezzlement, misuse of UNDP resources and entitlements fraud—continued to be the largest category of cases, constituting 59 per cent of the total number of cases handled by OAI in 2011. This is almost identical to 2010, when financial irregularities constituted 60 per cent of the total number of cases received. However, several of the complaints received in 2011 involved complex schemes of fraud and/or large monetary loss, including, for example, one case in which the loss was confirmed to be at least $2.3 million.

69. Among the allegations not relating to financial irregularities, workplace harassment and abuse of authority were the two largest categories of complaints, together constituting 19 per cent of OAI cases in 2011. This indicated a marked increase over 2010, when allegations relating to workplace harassment and abuse of authority constituted 13 per cent of the cases.

70. In 2011 the third largest category of allegations not relating to financial irregularities was other failure to comply with obligations (8 per cent), followed by misrepresentation (4 per cent) and improper recruitment (4 per cent). The other failure to comply with obligations category encompasses any other failure by a staff member to comply with his or her obligations under the Charter of the United Nations, the Staff Regulations and Staff Rules or other relevant administrative instructions, or to observe the standards of conduct expected of an international civil servant.

71. Allegations of retaliation against whistleblowers comprised 2 per cent of the complaints received in 2011 (a total of 3 complaints). Two of these cases were finalized in 2011, both were unsubstantiated; one case is still under assessment. Other categories (including sexual exploitation, failure to comply with local laws, abuse of privileges and immunities, assaults and threats) comprised the remaining 5 per cent of complaints in 2011 (see Figure 11).

Figure 11. Types of complaints received in 2011



Disciplinary measures and other sanctions taken

72. In most substantiated cases, investigations conducted by OAI resulted in disciplinary or administrative measures, including action to ensure recovery of funds and, in cases of possible criminal behaviour, transmittal to the United Nations Office of Legal Affairs for further referral to national law-enforcement authorities. The 2011 "Annual report of the Administrator on disciplinary measures and other actions taken in response to fraud, corruption and other wrongdoing" provides more details.

Strengthening of investigations capacity

73. In 2011, OAI undertook a number of measures, described below, to further enhance its capacity to undertake investigations and to exchange fraud intelligence with other investigative units so as to better identify and deal with wrongdoing that may impact UNDP.

- A new hotline reporting system became operational at the start of 2011, providing UNDP with greater "reach" into the 177 countries where UNDP is on the ground. The new system provides: 24/7 toll-free reporting by telephone to trained call screeners; the ability to patch in interpreters; web-reporting in English, Spanish and French; and the ability for callers to remain anonymous, while also being able to provide further information at a later time, through the use of a reference code.
- A new investigations case-management system was implemented in order to more comprehensively document action taken to investigate allegations, to allow more meaningful analysis of case data, and to draw from investigations lessons that may be relevant to UNDP risk-management processes.
- An Investigations Advisor dedicated to Global Fund cases was recruited to ensure that alleged wrongdoing affecting Global Fund grants managed by UNDP is addressed quickly and effectively.
- Increased efforts to collaborate with the investigation offices of other international organizations were made. The purpose was to more effectively share information on fraud risks and to more efficiently investigate fraud that involved more than one organization. This collaboration with other investigative bodies has been further strengthened through the signing of cooperation agreements with other organizations, including an agreement on the prevention, detection and investigation of fraud and corruption, signed with the Office of the Inspector General of the Global Fund.

74. OAI actively contributed to the development of a number of new policies designed to better prevent, detect and address fraud against UNDP programmes and projects. These policies include the anti-fraud policy (March 2011) and the vendor sanctions policy (November 2011).

75. Pursuant to the revised OAI charter, which expanded the mandate of the OAI investigation function and was approved by the Administrator in December 2010, OAI has assessed and conducted investigations involving contractors, implementing partners and other third parties. As a result of investigations conducted in 2011, OAI expects to submit at least two cases in 2012 for review under the recently established vendor sanctions policy.

76. OAI has also developed a protocol for conducting proactive investigations in high-risk areas susceptible to fraud, corruption and other wrongdoing. Subject to the availability of resources, OAI plans to implement the first proactive investigation in 2012.

77. OAI is in the process of reviewing its investigation guidelines to ensure that cases involving contractors are handled as efficiently as possible. After discussions with the Legal Support Office, it was decided that when allegations against contractors have been substantiated, OAI will provide the reports containing the outcome of an investigation directly to the head of the office concerned. This is now being done.

78. As stated earlier in this report, the Board approved two additional investigations posts for the biennial support budget 2012-2013. With these new positions, expected to be filled within the first four months of 2012, OAI will be in a better position to implement its expanded mandate.

XII. Overall conclusion and framework for the future

79. The results of the various audits as well as the action taken by the offices concerned to address the issues raised by OAI are positive indications of the effectiveness of the governance, risk management and control processes of UNDP. The continuing support of senior management, the Audit Advisory Committee and the Executive Board enables OAI to successfully carry out its mandate.

80. OAI remains ready to meet all the challenges ahead, some of which may emanate from the implementation of the UNDP Agenda for Organizational Change and the organization's commitment to making its internal audit reports available to the public. The three-year OAI strategy approved by the Administrator shall guide OAI in the coming years.

United Nations DP/2012/14

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Reports of UNDP, UNFPA and UNOPS Ethics Offices

UNDP: activities for 2011

Report of the Ethics Office

Summary

This report of the UNDP Ethics Office covers 2011. Pursuant to the Secretary-General's bulletin on *United Nations system-wide application of ethics: separately administered organs and programmes* (ST/SGB/2007/11), the United Nations Ethics Committee reviewed the report at its thirty-fifth session, and it is hereby submitted to the Administrator. Pursuant to its decision 2008/37, the report is also submitted to the Executive Board. For the first time, the report includes recommendations to management on strengthening the organizational culture of integrity and compliance, as called for in the Executive Board decision 2011/24.

In 2011, the Ethics Office reviewed its work since inception, as forecasted in its action plan. It responded to or initiated 740 contacts with UNDP personnel.

Elements of a decision

The Executive Board may wish to take note of this report and comment on the progress made by the Ethics Office.

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I. Introduction

1. As envisioned in its action plan for 2009-2011, the Ethics Office reviewed its work in 2011, including a peer review, in line with its overall mandate "to cultivate and nurture a culture of ethics, integrity and accountability". The Office received 740 requests for services, compared to 483 requests in 2010, and to 186 in its first year of operation: 2008. With the support of other UNDP offices, the Ethics Office undertook the activities highlighted below.

(a) *Standard-setting and policy support.* Within the framework of the United Nations Ethics Committee, the Ethics Office continued to work on harmonizing applicable policies of UNDP, including through a broadcast on prohibitions against political activities. Within UNDP, the Ethics Office, along with the Office of Human Resources of the Bureau of Management, made a broadcast to clarify permissible outside activities. To respond to the Executive Board decision 2010/17, the Ethics Office vetted two recommended candidates of key oversight offices for potential conflicts of interest. It undertook work to update policies on financial disclosure and protection against retaliation with the Legal Support Office of the Bureau of Management. It contributed inputs to the vendor review procedures for the Procurement Support Office of the Bureau of Management.

(b) *Training and outreach activities*. During 2011, more than 800 UNDP personnel (including staff, individual consultants and United Nations volunteers) completed the mandatory online course, bringing the cumulative total to around 11,000. In 2011, more than 1,300 personnel participated in ethics workshops and more than 250 in briefings, bringing the cumulative total of face-to-face training encounters to nearly 3,800. (These sessions included individual contractors of UNDP and the staff members and personnel of other United Nations organizations. In some instances, the same persons were involved in the different modalities of training.) The multilingual peer ethics trainer network grew to 22 members.

(c) *Confidential advice*. The trend of increasing requests for advice continued. There were 342 requests, with confidential advice making up the largest category of requests. As in 2009 and 2010, advice regarding outside activities continued to be the biggest category.

(d) *Financial disclosure.* For the 2010 annual filing exercise, 1,413 staff members filed. This was 100 per cent compliance. However, meeting the filing deadlines continues to be problematic. Additionally, during the second and third quarters of 2011 the Ethics Office and the Office of Information Systems and Technology of the Bureau of Management introduced filing for staff members entering filing categories. The Ethics Office also piloted verification of 2010 filed statements (through stratefied random selection of filers) by requiring third-party documents to support the accuracy of the statements. The Office completed a review of all previously submitted statements, sent out completion messages to those 2009 and 2010 filers for whom no conflicts of interest had been detected, and increased its proactive and remediation advice.

(e) *Protection against retaliation.* The Ethics Office reviewed nine complaints of retaliation and concluded three long-standingrequests for advice to staff members fearing retaliation.

2. The Ethics Office will support the corporate priorities of the UNDP Agenda for Organizational Change by providing advice aimed at mitigating reputational and other risks related to employee misconduct or non-compliant administrative practices.

II. Administrative activities

3. In 2011, a team of one D-1, one P-5, one G-6, one Junior Professional Officer and three part-time consultants implemented the workplan of the Ethics Office, with an allocation of $210,000 for general operating expenses. To enhance professional and institutional capacities, the Office's staff continued to participate in in-house and external learning programmes. To preserve institutional memory, the Office completed an operations manual. The Office moved its premises for the third time and upgraded physical and digital-information security in its new premises.

4. The amendment to the Audit Advisory Committee's terms of reference included reviewing and advising "on the fraud and corruption prevention policy, [and] ethics function including the code of ethics and whistle-blower policy".

5. The Ethics Office also participated in a peer review to monitor its performance to date. The reviewers employed a methodology that relied on information provided by UNDP and used a few international financial institutes as comparator organizations. The peer review found that "[t]he UNDP Ethics Office has without a doubt established the major, essential elements of an ethics programme [which] combine rules-and values-based approaches by helping the organization address compliance with rules, standards and laws; managing and reducing risks to the institution and to individual staff members; and enhancing the organization's reputation."[1]

6. In its decision 2011/24 the Executive Board asked the Ethics Office to make recommendations to UNDP management to "strengthen the organizational culture of integrity and compliance". In response, this current report includes a section on recommendations to management.

7. In responding to the Executive Board request, the Ethics Office took into consideration the UNDP corporate priorities embodied in the Agenda on Organizational Change. Specifically, the Office considered the Agenda's objectives of reducing the administrative burden, focusing on results and increasing administrative flexibility. While focusing on improving performance, care should be taken that new opportunities to circumvent due processes are not introduced. The Office should usefully contribute by better clarifying standards of conduct for UNDP personnel, delineating the non-negotiable standards and safeguarding an organizational culture with the highest standards of efficiency, competence and integrity, as called for by the Charter of the United Nations. Measures to prevent opportunistic fraud or to remove temptations by identifying situations with potential conflicts of interest complement efforts to boost performance and should not be confused with administrative burdens. The Office took these factors into account in extending its action plan to 2012 and preparing its 2012 workplan.

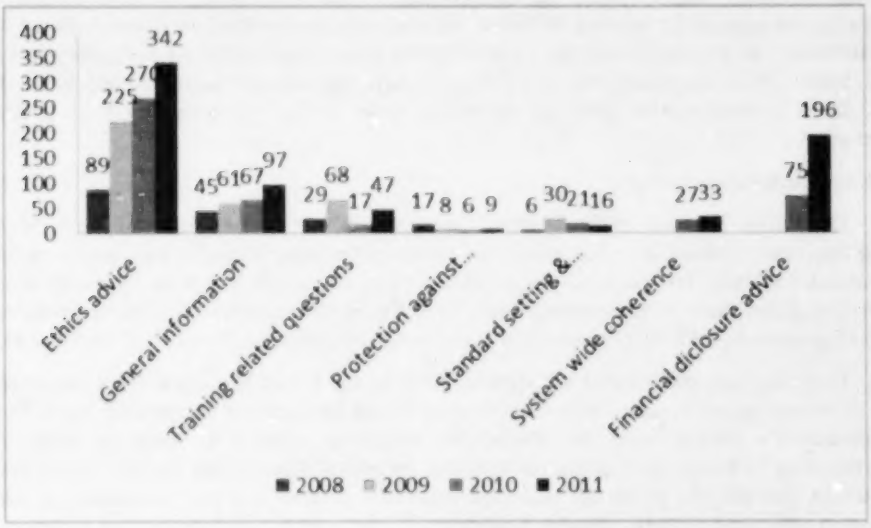
III. Mandated activities

8. Since its establishment, the number of requests received by the Ethics Office has grown nearly four times (from 186 in 2008 to 740 in 2011).[2] Figure 1 compares the breakdown of requests from 2008 to 2011.

[1] Report of the external peer review panel of the UNDP Ethics Office (peer review report), 18 January 2012, p. 10.

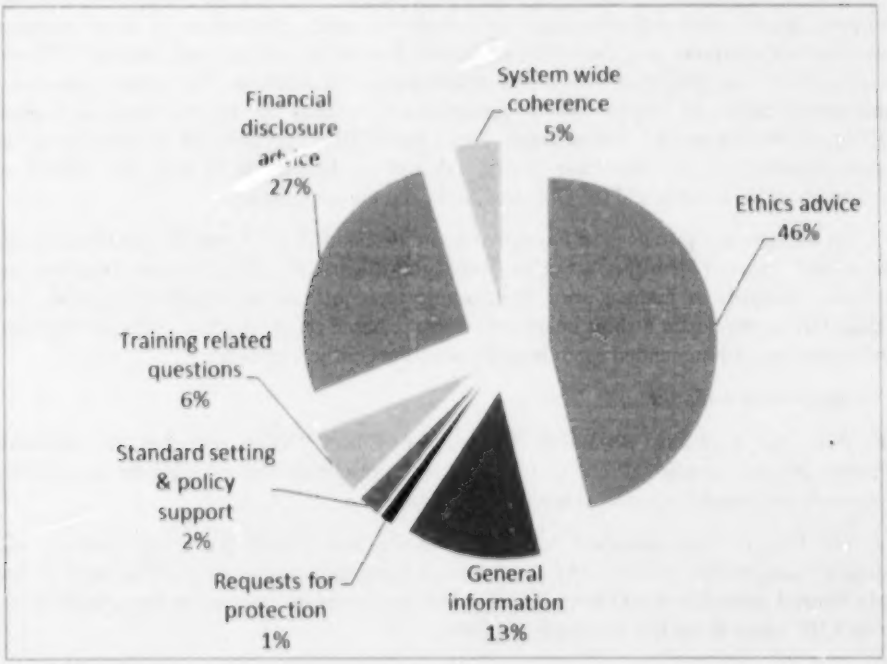
[2] The term "requests" covers mainly requests for services from individuals and business units, and also includes approaches by the Ethics Office itself to individuals and business units under the training-related, standard-setting and FDP advice categories.

Figure 1: Breakdown of number of requests from 2008 to 2011



9. Figure 2 presents the proportions of the 740 requests received in 2011, classified by the various categories of activities carried out by the Office.

Figure 2: Categories of requests received in 2011


Financial disclosure advice 27%
System wide coherence 5%
Ethics advice 46%
Training related questions 6%
Standard setting & policy support 2%
Requests for protection 1%
General information 13%

A. Standard-setting and policy support

10. As in previous years, the Ethics Office worked on harmonizing standards of conduct within the United Nations system and across UNDP. At the system level, the Office continued with the activities of the network of United Nations agencies (renamed the Ethics Network of Multilateral Organizations) and the United Nations Ethics Committee. At the agency level, the Ethics Office consulted with key offices in applying relevant personnel and financial standards. Communication activities continued to be critical in reaching out to UNDP personnel.

United Nations system-wide

11. The Ethics Network of Multilateral Organizations met in July and discussed ethics helplines and hotlines, a compendium of practices for international ethics practitioners, financial disclosure programmes, characteristics of an ethics office and the ethics advisory function. Subsequent to this meeting, the UNDP Ethics Office chaired a working group on working methods, with the objective of making recommendations to the chair of the Network.

12. The Office also participated in a workshop, run by the United Nations Ethics Committee, on protection against retaliation. In order to ensure consistency across the agencies, the Office continued to consult with the Committee regarding commonly occurring requests. Participation in forums such as this one provides the ethics offices means for developing best practices and to gain guidance, exchange materials, conduct internal benchmarking and develop career and strategic planning strategies.

13. Introduced last year, the system-wide coherence category refers to requests for information, policy interpretation or ethics advice for common situations dealt with by the ethics offices in the United Nations system. The number of requests has increased in 2011.

Within UNDP

14. Within UNDP the Ethics Office broadcast a United Nations Ethics Committee message on political activities and a message on outside activities. Preparation of these messages involved consultations with the Office of Human Resources and its Legal Support Office as well as with the Office of Audit and Investigation. In addition, the Office contributed substantive inputs on vendor review procedures developed by the Procurement Support Office of the Bureau of Management. The Ethics Office participated in monitoring the implementation of the anti-fraud policy, adopted in March 2011, with the Bureau of Management Directorate and the Office of Audit and Investigations.

15. To implement a provision of Executive Board decision 2010/17, the Ethics Office carried out consultations to identify a list of key oversight officers. The objective was to review any potential conflicts of interest prior to assuming these officers assuming their duties. The Ethics Office developed a short interview schedule, based on practices in other jurisdictions, and vetted two recommended candidates for potential conflicts of interest.

Communication activities

16. With the Learning Resources Centre, the Ethics Office launched an animated presentation on "helpful offices in UNDP". This presentation is designed to help UNDP personnel with workplace-related problems and questions.

17. The Ethics Office launched its website on the new UNDP Sharepoint platform and content management system: https://intranet.undp.org/unit/office/ethics/. The website has been viewed more than 8,000 times in 2011. This is an increase from 5,700 times in 2010 and from 3,500 times in the last six months of 2009.

B. Training, education and outreach

18. As in previous years, the Ethics Office monitored compliance with the mandatory online course and held regular and customized ethics workshops and briefings at Headquarters and at country offices. With the support of senior managers in the respective locations, the Office enhanced its onsite outreach to staff members and other personnel serving in post-conflict or hardship duty stations such as Haiti, Liberia, Sierra Leone and the Democratic Republic of the Congo. Via teleconferences and Skype calls, outreach was also provided to personnel working in Afghanistan. This outreach enabled colleagues in these locations to access ethics resources and facilitated discussions on ethics issues of concern to them.

19. The mandatory online ethics course continues to inform personnel about relevant United Nations staff regulations and rules and the standards of conduct expected of international civil servants. It introduces the ethical decision-making model in face-to-face workshops. Based on the data collected by the Learning Resources Centre, the Ethics Office continued to monitor compliance with this rules-based online ethics module. For the reporting period, approximately 800 staff members and other personnel completed the online course. From 2008 to 2011, more than 10,900 personnel (including staff, individual consultants and United Nations volunteers) completed this training. In accordance with the UNDP practice of gender marking, the Ethics Office has been trying to aggregate its statistics by gender. More or less equal proportions of women and men have completed the online ethics training, with 1 per cent more being women.

20. New staff members are required to complete the online training within three months of entering on duty. More than 800 new staff members were recruited in 2011, of whom approximately 14 per cent completed the training within the first year, based on the records of Learning Resource Centre. Of those who completed the training, 59 per cent did so within the first three months of entry and 34 per cent within the first seven months. The remaining recruits who did not complete the training within the first year were widely distributed across grades and business units. The face-to-face training provides an opportunity for all personnel to deepen their understanding of the organization's values and standards, their duties and obligations, and offers a forum for group discussion on ethics-related concerns. This engagement is crucial to the work of the Office in strengthening a culture of integrity and compliance. The Office responds to specific requests from business units or, where feasible and economical, initiates contact with units.

21. In 2011, the Ethics Office reviewed and updated its "Professional Ethics and Integrity in our Daily Work" workshop. In this workshop staff members and other personnel are encouraged to speak out against conduct that undermines the interests of the organization, and they are provided with information on the UNDP protection-against-retaliation policy. Managers are reminded of their duty to promote a work environment in which staff members are empowered to exercise ethical judgment, free of retaliation. Sessions of the workshop are regularly offered in English, French and Spanish. (In Haiti, the country office arranged for a special session in Creole.)

22. For the reporting period, 53 sessions of the workshop were delivered by Ethics Office staff members, professional facilitators or peer ethics trainers, to approximately 1,400 staff members and other personnel. Although the workshop is directed at staff members, the Ethics Office considers it important to provide training and outreach to all personnel, regardless of contractual status. The training is tailored to include the standards of conduct for contractors who are not governed by staff regulations and rules. This approach allows the Office to support the organization in risk management, at a minimal additional cost.

23. As in previous years, the face-to-face training has been made possible by the goodwill and cooperation of senior managers in the host offices. In most cases senior managers agreed

to share costs, thus enabling training in more than one location during a single mission. This cooperation maximized the use of scarce resources. In some offices, senior managers made the training mandatory and personally participated fully in the training. Such visible engagement by senior managers is necessary to reinforce the shared organizational values, which guide staff members' attitudes and behaviours.

24. To extend the geographic range and build up francophone peer-training capacity, the Office conducted its fourth training-of-trainers exercise with the collaboration of the Democratic Republic of Congo country office and added three francophone trainers to the peer ethics trainers' network. Launched in 2008 with the Learning Resources Centre, the group now comprises 22 members who support ethics learning. The Ethics Office and the Learning Resources Centre have continued to maintain feedback and communication among the network members through quarterly teleconferences. The Ethics Office and the Learning Resources Centre support knowledge-sharing on ethics-related issues, making use of selected internal experts. The network continues to be an important source of feedback for the Ethics Office on ethics-related staff information and training needs.

25. In their feedback, participants in face-to-face ethics workshops continue to reflect a demand for regular and refresher ethics education and for more visible senior management engagement in ethics training.

26. During briefings, the Ethics Office shares information on its role and addresses ethics issues arising for particular functional groups or business units. Staff members from the Office provided seven such briefings in person and remotely via the Internet to more than 250 participants. Some of these briefings dealt with specific subjects such as permissible involvement in political activities. Figure 3 shows the cumulative number of encounters with staff members and personnel through ethics trainings and briefings from 2008 to 2011. Figure 4 presents the 54 geographic locations, in addition to Headquarters, where trainings or briefings were provided from 2008 to 2011.

27. At Headquarters the Ethics Office began personal briefings of senior managers who were newly recruited to UNDP or newly appointed to a subsequent position. The Learning Resources Centre and the Office of Human Resources more generally have helped the Ethics Office identify and contact managers who fit these criteria. These briefings are modeled on the induction briefings introduced by the Ethics Office of the United Nations Secretariat. Sessions include information on the role and work of the Ethics Office as it relates to senior managers, the duties and obligations of international civil servants, the financial disclosure programme and managing conflicts of interests, as well as information on the protection against retaliation policy and the role of managers in creating an ethical work environment. The Office values this opportunity to connect with individual senior managers as it continues working to build an ethical culture in UNDP, from the top down.

Figure 3: Comparison of cumulative numbers of training encounters from 2008 to 2011

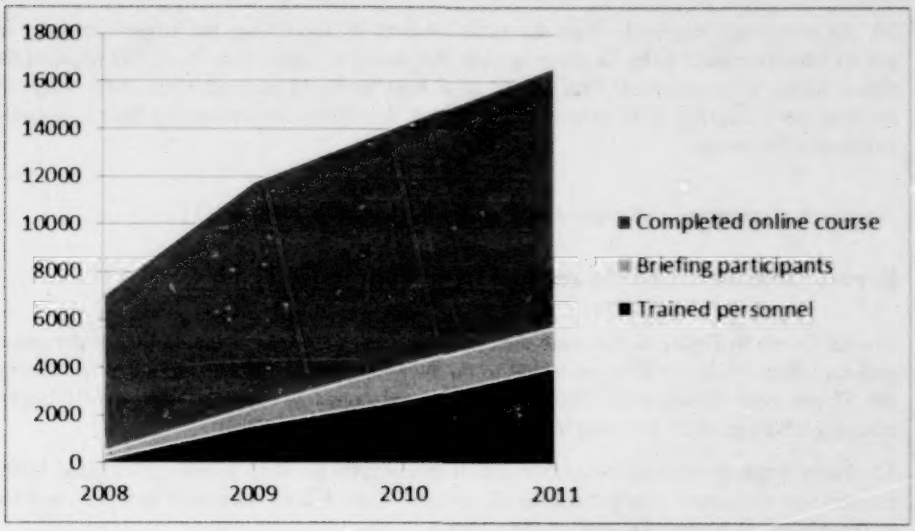


Figure 4: Geographic location of staff members and other personnel who received face-to-face ethics training or briefings from 2008 to 2011

Latin America and the Caribbean	Arab States	Africa	Asia and the Pacific	Europe and the Commonwealth of Independent States
• Argentina • Barbados • Brazil • Chile • Costa Rica • Cuba • Dominican Republic • El Salvador • Guatemala • Guyana • Haiti • Jamaica • Panama • Nicaragua • Uruguay	• Bahrain • Egypt • Iraq • Jordan • Kuwait • Lebanon • Sudan • Tunisia • Yemen	• Burkina Faso • Cote d'Ivoire • Democratic Republic of Congo • Ghana • Guinea-Bissau • Liberia • Mali • Mozambique • South Africa • Sierra Leone • United Republic of Tanzania • Uganda • Zambia	• Afghanistan • Bangladesh • India • Indonesia • Mongolia • Philippines • Republic of Korea • Thailand	• Belgium • Denmark • Germany (UNV) • Kosovo • The former Yugoslav Republic of Macedonia • Serbia • Slovakia • Ukraine • Switzerland

C. Advice and guidance

28. The advisory function of the Ethics Office is a cornerstone of its preventive work, helping all personnel think through issues and options when facing difficult decisions or unsure about United Nations standards of conduct. In providing advice the Ethics Office is guided by the core principles of independence and confidentiality. The Office maintains strict confidentiality and cannot be compelled to disclose information that has come to its attention.

29. The Office gives advice when staff members and other personnel approach the Office. Following the review of financial disclosure statements the Office also offers proactive advice, including on how to remediate conflicts of interest. For the reporting period the Office received 342 requests for ethics advice and seven requests for financial-disclosure-related advice. It provided 189 instances either of advice to remediate situations that came to light in

the review of financial disclosure statements or of proactive advice potentially of interest to staff members filing such statements.

30. As previously reported, since the establishment of the Office the largest category of requests has continued to be for ethics advice. As shown in Figure 5, in 2011, 342 requests for ethics advice were received. This marks an almost four-fold increase since 2008 when 89 requests were received. It is estimated that it took the Office on average 4.3 days to respond to requests for advice.

Figure 5: Comparison of requests for ethics advice from 2008 to 2011

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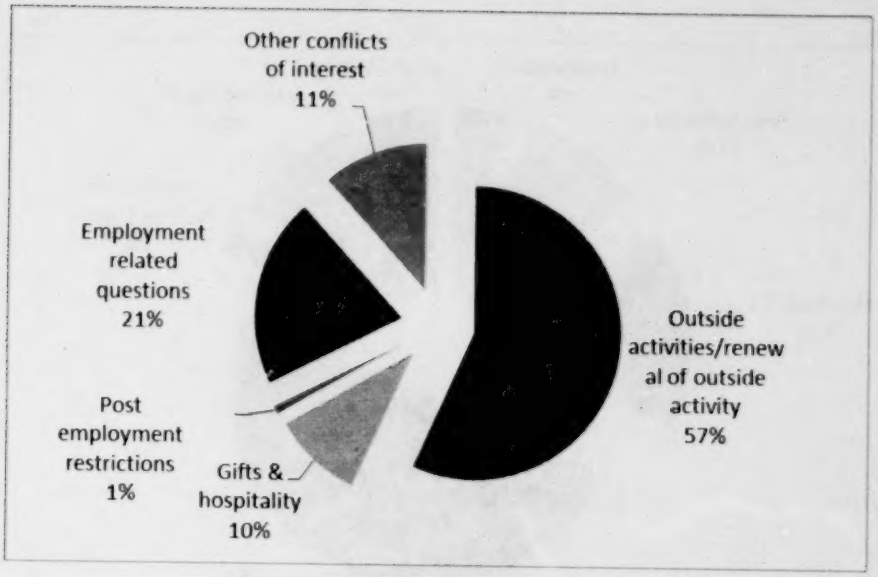
31. As shown in Figure 6, the main area of concern for staff members and other personnel seeking ethics advice in 2011 pertained to outside activities, with those requests accounting for 57 per cent of the total. "Employment-related concerns" remains the second largest category, although at 21 per cent, it is eight per cent lower than in 2010.

32. Many requests relating to outside activities concern teaching at universities and board membership on various non-governmental entities. Many offices refer staff members, and the staff members also come forward on their own.

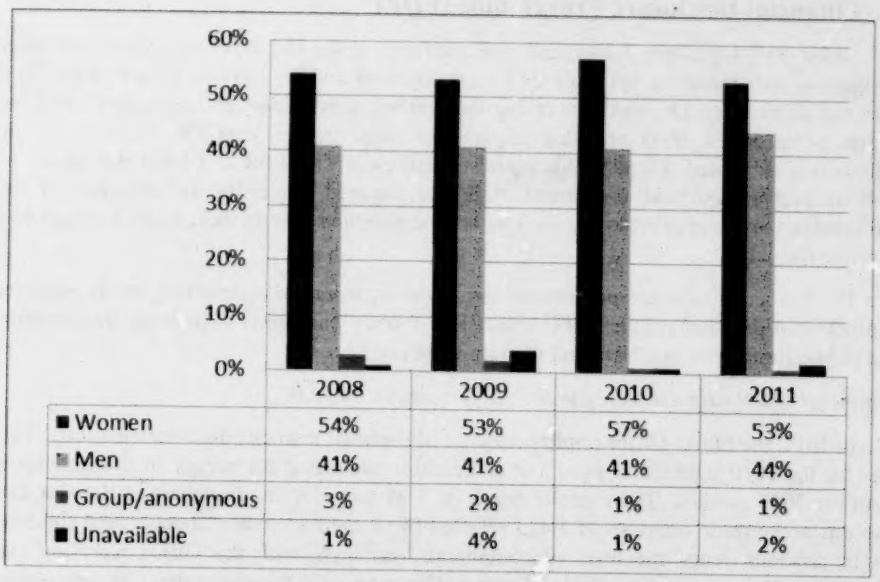
33. The Office continued to take a targeted approach in training, based on trends in requests for advice, and raising managers' awareness of their responsibility to promote staff members' compliance with UNDP rules and policies.

Figure 6: Breakdown of requests for ethics advice in 2011 by category


Other conflicts of interest 11%
Employment related questions 21%
Post employment restrictions 1%
Gifts & hospitality 10%
Outside activities/renewal of outside activity 57%

34. Figure 7 shows the gender breakdown of persons who have sought ethics advice since July 2008, when the Office started to track such information.

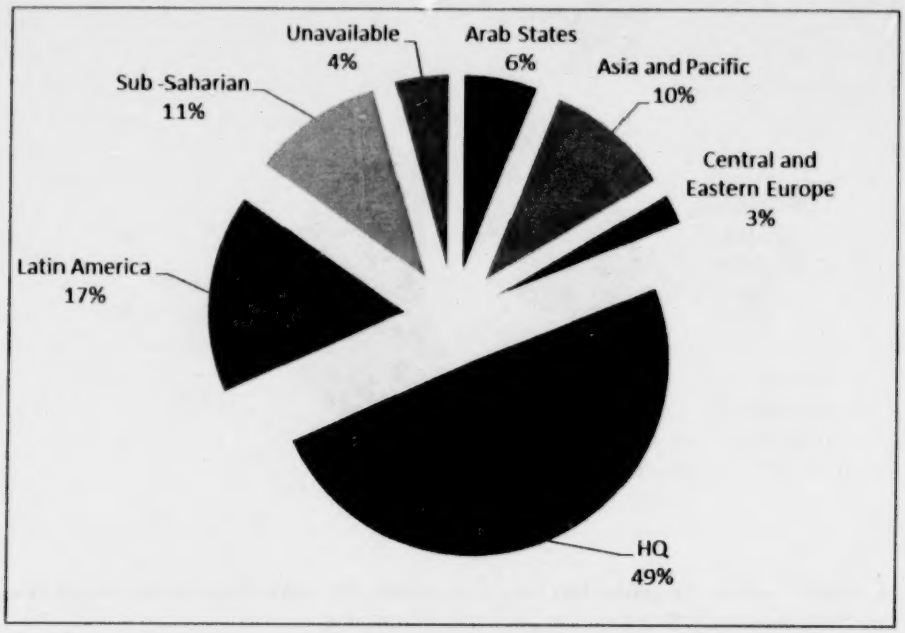
Figure 7: Breakdown of requests by gender from 2008 to 2011



	2008	2009	2010	2011
Women	54%	53%	57%	53%
Men	41%	41%	41%	44%
Group/anonymous	3%	2%	1%	1%
Unavailable	1%	4%	1%	2%

35. As shown in Figure 8, the majority of requests continue to come from staff members and other personnel at Headquarters, which accounts for 49 per cent of the total requests for services. Staff members in human resources or procurement functions continue to contact the Office about ethics-related issues arising in their offices in the course of their work.

Figure 8: Breakdown of staff members seeking advice by location in 2011



D. Financial Disclosure Programme (FDP)

36. Under staff regulation 1.2 (n), all staff members at the D-1 level and above and other designated staff members are required on appointment and at intervals thereafter to file a financial disclosure statement concerning themselves, their spouse and dependent children. When so requested filers are also required to assist in verifying the accuracy of the information submitted. Through this exercise, staff members at the D-1 level and above, as well as procurement and investment staff, are required to certify the accuracy of the information they have provided on their assets and liabilities and on those of their spouse and dependent children.

37. The financial disclosure programme assists the organization in detecting actual, apparent and potential personal conflicts of interest. The primary purpose is to promote transparency and public confidence in UNDP and its staff members.

Financial disclosure exercise for the 2010 transaction year

38. In 2011, the Ethics Office implemented its fifth annual financial disclosure exercise. This was for the 2010 transaction year. The Office also completed the review of the statements from the 2009 exercise. The exercise began on 1 March with the disclosure of the financial interests and outside activities of 1,413 selected filers, their spouses and dependent children. As in previous years, the level of compliance was high, with the Office receiving and reviewing 100 per cent of required statements. However, as in the past, many statements were filed past the due date, and information needed for review submitted late. The Office continued to spend a lot of time reminding filers of the due date and chasing down needed information. The Office reviewed the statements and, when necessary, provided advice to mitigate or avoid conflicts of interest.

39. The Office better targeted the categories of staff members required to file in order to ensure that all those staff members who meet the criteria for filing were selected to file, and

that the Office's resources were used in an efficient manner. This streamlining involved working closely with the heads of offices and focal points at the beginning of the filing period in order to finalize the list of filers.

40. As in previous years, the number of requests for assistance during the filing exercise continued to decline. This decrease may be due to continuous improvements in the online system provided by the Office of Information Systems and Technology of the Bureau of Management, or to the experience gained to date by the FDP focal points in the business units, or to the filers being more familiar with the filing requirements.

Induction filing

41. The Office, in collaboration with the Office of Human Resources, introduced induction filing. Staff members who were newly appointed to positions which met the filing criteria were required to submit a financial disclosure statement, following their appointment, rather than wait for the annual filing exercise. Induction filing allowed the Ethics Office to review the financial and outside interests of newly appointed or recruited staff members in order to detect and address conflicts of interest when these staff assumed their new assignments, rather than waiting for the outcome of the annual filing exercise.

42. In addition to the 1,413 annual filers, a total of 84 staff members were identified as needing to file an induction statement. In order to accommodate the induction-filing process, the online report system was re-opened during June and September. The level of compliance was high, with the Office receiving and reviewing 100 per cent of the required statements. However, as for the annual exercise, at times compliance was not timely and required much follow-up by the Office.

Review of data and provision of advice

43. In conducting the review, the Office examined the individual statements to ensure that the information was complete and consistent. Where information was incomplete or unclear, the filer was contacted to provide additional information or clarification. Subsequently the private interests disclosed was compared to a list of UNDP vendors and investment funds and also to the relevant prohibitions or restrictions in the Staff Rules and Regulations. The purpose was to identify conflicts of interest and offer remedies or proactive advice to address detected conflicts.

44. Following the review, the Office sent a clearance message to 97 per cent of the 2010 annual and induction filers indicating that no conflict of interest was detected. For the reporting period, the Office identified 31 cases of conflict of interest, seven of them continuing from the 2009 exercise. In 159 cases the Office provided advice to safeguard against conflicts of interest arising in the future. As Figure 9 shows, of the 31 cases identified, 19 pertained to family relationships, 9 to outside activities and 3 to financial interests. The Office continues to work with the Office of Human Resources and individual staff members to ensure compliance with the organization's rules and policies, through recusals and disengagement from outside activities, among other measures.

Figure 9: Conflict of interest cases in the 2009 and 2010 financial disclosure exercises

	Number of cases
Financial interest	3
Outside activities	9
Family relationships	19
Total	31[3]

45. Along with concluding the review process for 2010, outstanding reviews for previous filing periods were also completed. As Figure 10 shows, of the 17 cases identified in previous filings, 11 pertained to family relationships, four to outside activities and two to financial interests. Remedial actions have been taken in 11 of the cases. The other six cases are being monitored. The Office looks forward to commencing the filing exercise for the 2011 reporting period with no backlog.

Figure 10: Conflict of interest cases in the 2006, 2007 and 2008 financial disclosure exercises

	Number of cases	*Recusal*	*Monitoring*
Financial interest	2	3	
Outside activities	4	4	
Family relationships	11	4	6
Total	**17**	**11**	**6**

Verification

46. The Ethics Office piloted an exercise, based on stratified, random sampling of filers, to verify that the statements were true as submitted, and that the filers were clear and complete in making their disclosures. A small sample of financial disclosure statements, representing filers across different functional groups, grade levels, regions and business units, were randomly selected for verification. Selected staff members were required to provide third-party documentation such as bank account statements, income tax returns and documents relating to ownership of real estate in order to support information provided in their disclosure statements.

47. Of the filers selected, 80 per cent were able to completely and fully support every item on their financial disclosure statement. Eight per cent of the filers were unable to support all of the items on their financial disclosure statements. This was for various reasons, including inability to access the information from their present duty station. Of the remaining filers, 8 per cent had separated from UNDP, and one filer was still undergoing the verification process as of the end of 2011.

48. The Ethics Office of the United Nations Secretariat, as part of the Financial Disclosure Programme, administers the Secretary-General's public disclosure initiative for senior officials at the Assistant Secretary-General level and above. Although public disclosure is done on a voluntary basis, it is an important initiative of the Secretary-General, as it demonstrates that senior officials are committed to transparency. The Ethics Office encourages and promotes this initiative.

[3] This number includes the six being monitored from 2006, 2007 and 2008, as reported in Figure 10.

E. Protection of staff against retaliation for reporting misconduct and for cooperating with duly authorized audits or investigations

49. In accordance with ST/SGB/2007/11, the Ethics Office is responsible for implementing the UNDP policy for protection against retaliation. This policy enables the organization to function in a transparent and accountable manner and has the objective of enhancing good corporate governance.

50. UNDP protects staff members who are threatened with or have suffered retaliation for having reported misconduct or cooperated with a duly authorized audit or investigation. The policy aims at encouraging staff members to fulfill their duty to report misconduct and to cooperate with duly authorized audits and investigations. It assures that they not suffer from retaliation, when this duty is fulfilled. It also ensures that the organization can effectively address situations that give rise to allegations of retaliation and manage risks.

51. Complaints of retaliation are to be made directly to the Ethics Office. Once the Office receives a complaint it conducts a preliminary assessment to determine whether the three conditions prescribed by the policy have been met. These are: (i) whether the complainant reported misconduct or cooperated with a duly authorized audit or investigation [the protected activity]; (ii) whether some detrimental action has been threatened or taken in relation to the complainant; and (iii) whether there is a causal connection between the report or cooperation and the detrimental action.

52. In circumstances where the conditions have not been met, the Office will find that the alleged retaliation has not been established. The Office advises the complainant, based on the circumstances of the case, and may refer him or her to the Office of the Ombudsman or other mechanisms within the internal justice system. If the Office finds that the three conditions have been met, it will determine that a prima facie case of retaliation has been established and refers the matter for investigation by the Office of Audit and Investigations (OAI). If the circumstances warrant, the Office will provide interim protection for the complainant during the investigation.

53. The policy provides for a shift in the burden of proof at the investigation stage, and requires the administration to show that the same decision would have been taken in the absence of the staff member's involvement in a protected activity.

54. Once the Ethics Office receives the investigation report it makes a determination as to whether the alleged retaliation has been established. In cases where retaliation is established, the Ethics Office makes recommendations to the Administrator for remedial measures regarding the staff member who complained of retaliation. The case is also referred to the Director of the Legal Support Office for consideration of whether disciplinary proceedings should be initiated against any staff member who appears to have retaliated.

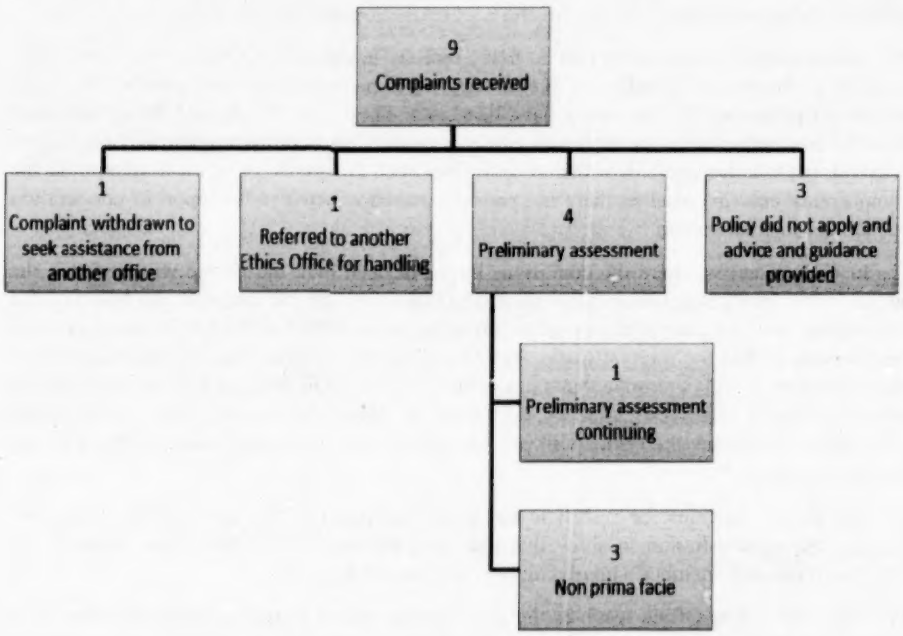
55. Where the alleged retaliation has not been proved, the Director of the Ethics Office may make recommendations to the Administrator regarding any managerial or other administrative issues arising from the case, if any.

56. As illustrated in Figure 11, nine complaints alleging retaliation were received by the Ethics Office during the reporting period. In one case the complainant withdrew the complaint, indicating an intention to approach another office to seek assistance. Of the remaining cases, three were deemed not to warrant a preliminary assessment, and the Office gave advice to the complainants on the scope and application of the protection policy. In one case, due to an apparent conflict of interest, the Ethics Office referred the complaint to another Ethics Office.

57. A preliminary assessment was conducted in three cases. In addition, at the end of 2011, another case was still under review. A prima facie case was not established in any of the three cases, and in none of these cases was interim protection warranted.

58. The Office continued to watching over the three cases brought forward from 2010, cases in which staff members sought advice due to a fear of retaliation. Two of these cases have been resolved without a formal complaint of retaliation being filed. The Office has continued to monitor the third case and will do so until the staff member is able to utilize a satisfactory mechanism to address the concern.

Figure 11: Overview of requests for protection against retaliation in 2011

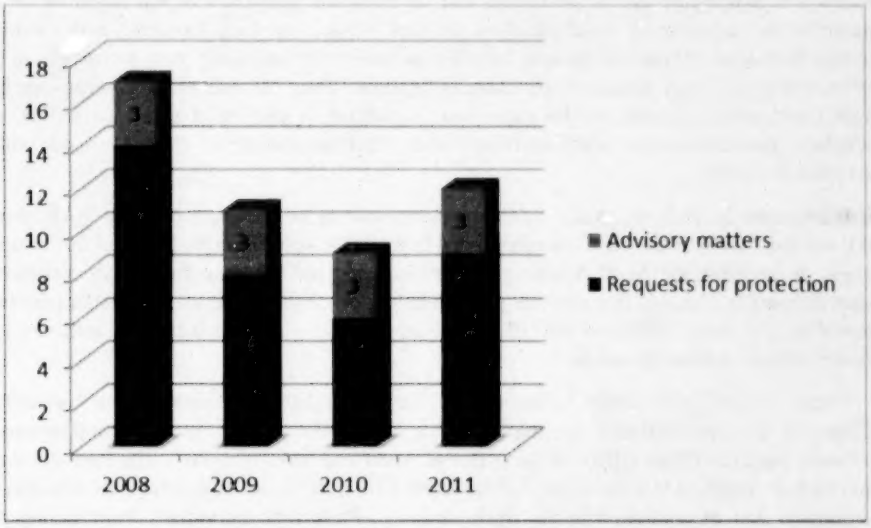


59. An effective protection against retaliation policy is an important element in promoting accountability and transparency in the operations of UNDP. Through its training, outreach and awareness-raising activities, the Ethics Office continues to remind staff members of their duty to blow the whistle on conduct that undermines integrity, transparency and good governance and places the image and reputation of the organization at risk. Staff members are also reminded that they have a right to be protected from retaliation when they act to safeguard the interests of the organization by reporting misconduct or cooperating with duly authorized audits and investigations. The Ethics Office provides detailed information to staff members at all levels on the provisions of the policy and a case-study illustration of how the policy works. Particular attention is placed on making managers aware of their duty to promote a workplace free of retaliation and their duty to support positive organizational culture and behaviours.

60. As shown in Figure 12, since 2009 the number of requests for protection appears to have settled at fewer than 10 per year.

61. In 2010, more women made complaints of retaliation than men. However, in 2011, of the nine complaints lodged, the overwhelming majority came from men.

Figure 12: Comparison of requests for protection from 2008 to 2011



IV. United Nations Ethics Committee

62. The Ethics Office participated in all of the United Nations Ethics Committee meetings and hosted its share of them, as in previous years. It also participated in the third meeting of the Ethics Network of Multilateral Organizations (previously known as the United Nations Ethics Network). For more information on the work of the United Nations Ethics Committee, please refer to the report of the Secretary-General on the activities of the Ethics Office (A/66/319), which was presented at the sixty-sixth session of the General Assembly.

V. Recommendations to management to strengthen an organizational culture of integrity and compliance

63. As mentioned above, Executive Board decision 2011/24 calls on the Ethics Office to make recommendations to management on strengthening an organizational culture of integrity and compliance.

64. The overall recommendation is to include ethical decision-making as an important tool for staff members in implementing the Agenda for Organizational Change. Management must find a realistic balance between easing the administrative burden and retaining sufficient internal control and oversight for improving organizational performance, without overexposing the organization to risks of unsound administrative practices or staff member misconduct. It can be argued that the most important factor in "lifting performance from good to great" is the people factor. A call to observe the highest standards of integrity is a key motivating factor for staff members and other personnel, while compliance with rules is a major component of institutional reputational risk management. The senior managers need to set the right tone at the top, by "walking the talk".

65. In terms of actions, managers can play an important role in ensuring the more timely induction of new recruits and staff members rotating into new assignments by monitoring their compliance with the mandatory online ethics training and other mandatory training requirements. Managers can sponsor face-to-face ethics training and briefing sessions in their offices, sessions at which staff members can discuss maintaining high ethical standards, ensuring transparency and being accountable for exercising greater discretion in applying policies and making decisions. Managers can be front-line guardians of the organization's reputation by encouraging staff members to seek advice on their financial and outside interests and those of their immediate families, as well as by requiring them to comply in a timely manner with any financial disclosure obligations. They can encourage a workplace in which constructive dissent can be expressed, retaliation is prevented and trust builds, a workplace that encourages staff members and other personnel to come forward with workplace problems.

66. Independently, both the Audit Advisory Committee at its twentieth meeting in October 2011 and the Peer Review Panel recommended that UNDP streamline its financial disclosure process. In addition, the Audit Advisory Committee endorsed the view that if staff members do not follow the Ethics Office's advice in remediating conflicts of interest, the matter may be referred by the Ethics Office to the Office of Human Resources, which has the authority to take appropriate follow-up action.

67. These entities also both independently recommended that management consider transferring the responsibility for implementing the UNDP policy on protection against retaliation from the Ethics Office to the Office of Audit and Investigations.[4] The Peer Review Panel further specified that the Ethics Office retain a role: to "focus on institutional initiatives to eliminate fear of retaliation in the workplace. . . . Protecting individuals from managers who retaliate in various ways against staff members for raising issues and concerns is a major management issue; such protection in general is part of risk management and goes to a central concern expressed on our visit to the UNDP, regarding management accountability."[5]

68. The Peer Review Panel observed, "Ethics issues are not the sole responsibility of the Ethics Office or the Office of Human Resources; they are management issues and as such supervisors and managers need to learn how to help staff members deal with everyday ethics-related matters. Senior managers also need to understand their role in creating an organizational culture that promotes a positive work environment where issues and concerns can be raised without fear of retaliation."[6] The peer reviewers recommended that the Office of Human Resources work with the Ethics Office to add ethical decision-making and dealing with ethical dilemmas modules into current supervisory and management training. The reviewers also recommended that yearly supervisory performance evaluations include one question on how the manager has promoted ethics and an ethical culture in his or her unit.

VI. Conclusion

69. This annual report focused on the 2011 theme for the Ethics Office: review, as previewed in its action plan for 2009-2011. It highlighted some of the observations and findings of the peer review in which the Office participated to monitor its performance.

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[4] Audit Advisory Committee, minutes of twentieth meeting, agenda #3: Ethics Office Matters, para. 10; peer review report, p. 15. Currently, the Ethics Office receives complaints of retaliation and determines whether the complainant should be protected while OAI conducts the investigation and the Legal Support Office determines whether misconduct has occurred.

[5] Peer review report, p. 15.

[6] Peer review report, p. 16.

70. However, a small, lone office cannot effect change on its own. Any progress made must be attributed also to work done by management, staff and other independent and internal control offices. Mainly, all personnel at UNDP must be guided by the vision and mandate of UNDP: to help people build a better life through empowered lives and resilient nations. It is in order to achieve this goal that UNDP is aiming at being a world-class, knowledge-based organization and lifting its performance from good to great. Because people can best bring about people-centred development, it is all the more important to strive for the highest standards of efficiency, competence and integrity.